Forestry
Innovation
Investment Ltd.

2004/05 INVESTMENT STRATEGY

INTERNATIONAL MARKETING & PRODUCT DEVELOPMENT PROGRAMS

DECEMBER 2003

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PREFACE:

Forestry Innovation Investment (FII) was established in April 2002, as the organization responsible for the British Columbia Government's investments in:

- forest sector international marketing,
- forest product development activities, and
- forest practices and market acceptance advocacy.

This document represents the 2004/05 Investment Strategy for Forestry Innovation Investment's **International Marketing and Product Development Programs**.

British Columbians want abundant sustainable forests, an internationally competitive forest industry and stable resource communities. The overall goal of FII programs is to increase the value of British Columbia forests, consistent with these preferences.

This investment strategy will highlight the markets and the key activities that FII has identified as a priority for funding during 2004/05. FII programming will focus on joint public-private projects representing and generally benefiting BC's various forest sectors.

This investment plan has been prepared with the intention of allocating FII's funding activities in areas and for initiatives that will benefit and enhance the forest sector, while maximizing the return on investment of public funds.

BACKGROUND:

FII is an innovative approach aimed at helping ensure a vital, growing, and sustainable forest sector for the benefit of the people of British Columbia. It is supported by public funds that are to be invested on behalf of British Columbians, reflecting the fact that as owners of the forest resource the Province has a profound vested interest in the BC forest industry. Currently, 95% of forest lands in British Columbia are publicly owned.

This investment strategy details the philosophy, orientation and approach for the 2004/05 funding period. The process of deciding where to invest funds involves the following criteria:

- **Not a Business Subsidy:**
  FII funding is a legitimate investment undertaken on behalf of the owners of the forest resource, and in no way represents a business subsidy.

- **Cost Sharing:**
  In the vast majority of cases, FII investments must be cost shared with the BC forest industry and/or with the federal government.

- **Eligibility:**
  Project proposals are requested through a public tendering process to which industry associations, research institutes, academic institutions, and BC government ministries may apply. A detailed description of this funding process and proponent eligibility can be found on FII's Internet website at www.forestry-innovation.bc.ca .

- **Ongoing Strategy Development:**
  FII prepares an annual investment strategy to guide its investment decisions. This strategy will evolve, based on the experience of previous years, the information and knowledge developed about global forest markets, and with the input and guidance from the Minister of Forests, Forest Investment Council, Forest Industry, and other sources.

- **Evaluation:**
  A thorough evaluation of proponent proposals is undertaken, to assess eligibility and to prioritize projects for annual funding. All investment recommendations are reviewed to ensure consistency with FII's strategic objectives and annual investment strategy. Final funding decisions are made by the President of FII.

- **Accountability:**
  A comprehensive contract monitoring and audit process ensures the highest degree of accountability for public funds, and supports the achievement of tangible, meaningful results.

- **Centre of Knowledge:**
  FII has elected to invest in becoming a center of knowledge and excellence. This includes accumulating data and insights that have been gathered in the past, filling in important gaps, and looking forward through new research activities. These are critical steps in making sure that future investments in product development and market development are informed and well chosen. This information subsequently becomes available to the BC forest sector, to support future plan preparation and decision making.

- **Direct Project Activities:**
  In some cases FII may initiate and deliver direct project activities. These activities will respond to market needs not otherwise addressed, and would be complementary to other funded proponent projects.

FII GUIDING PRINCIPLES:

For the 2004/05 fiscal year, Forestry Innovation Investment's project investments will be allocated based on a number of guiding principles.

1/ **Market Strategies:**
In addition to this overall investment strategy for 2004/05, FII will begin this year to guide investment decisions with individual market-by-market strategies. The first of these strategies was completed in October 2003 for South Korea. Additional work is planned for all other key markets in the immediate future. As these strategies are completed, proponents will be required to ensure their proposals and activities are consistent with the strategic direction and priorities set in these market strategies.

2/ **Investments based on Knowledge and Excellence:**
Roughly $^{1}/_{4}$ of FII's investments will be focused on building knowledge and excellence, and investing in market intelligence and market research activities. Many of these activities will be proposed and completed by proponents; with a portion of this work initiated directly by FII.

The remaining $^{3}/_{4}$'s of FII's investments will be focused on marketing/product development projects; funding activities that will contribute to the achievement of FII's program objectives. These activities will be firmly rooted in current, relevant, and comprehensive market information that provides a compelling business case for investing in the project.

3/ **Excellence through Innovation:**
Forestry Innovation Investment supports innovation and creativity, to achieve excellence. While established and accepted methods have an important role to play, so too does the development of new and innovative approaches. Based on sound market intelligence and planning, new and innovative approaches of achieving investment priorities will be encouraged.

4/ **Generate a Positive Return on Investment:**
FII expects that its investments will generate a positive return on investment for the industry and the province of BC. FII will establish as priorities those projects that contribute to generating a financial return that exceeds the initial investments made to support the initiative.

5/ **Short and Long Term Investments:**

As a priority, FII will look for projects that will generate the desired impact and return on investment in the short term (ie. within one year). As an annually funded program, FII must evaluate the results of its investments on an annual basis, and demonstrate the results those investments have achieved on a year by year basis.

FII recognizes, however, the need to take a long term perspective in funding some activities in developing or emerging markets. While a priority is still given to activities that generate shorter term results, FII is prepared to balance these investments with longer term, strategic investments where there is a compelling business case to do so. Longer term investments will **not** be based on multi year approvals or multi year funding agreements. All contracts will be for a maximum of one year, and will continue to require an annual proposal with project goals and objectives.

6/ **Emerging and Existing Markets:**

FII recognizes that there is considerable potential for increased activity or to enhance returns in BC's existing markets for forest products. These markets are where there is an existing demand for forest products, acceptance of BC products, and existing trading relationships. These markets represent the best short term potential for British Columbia, and as such roughly $^1/_2$ of FII's investments will be focused on activities in existing markets.

FII also understands that in order to diversify the industry in the longer term and to take advantage of new and developing opportunities, strategic investments in emerging markets are important. As a result of their importance and the longer term perspective to generate economic activity for BC, roughly $^1/_2$ of FII's funding will be available for emerging market activities.

7/ **Primary and Secondary Manufacturing:**
Recognizing that British Columbia is predominantly a producer of primary wood products (building products, etc), roughly 75% of FII's investments will be focused on marketing and market development activities for primary products.

British Columbia does have a considerable secondary or value added manufacturing industry, that continues to develop and prosper. Recognizing the importance of secondary manufacturing to the province, and the potential it has to add value to BC's forest products, FII anticipates spending roughly 25% of its non intelligence-gathering investments on related marketing / market development activities.

8/ **Geographically Balanced Investments:**
As a priority, FII will fund projects that have a broad application to all parts of British Columbia. While it is recognized that the benefits of some FII funded projects will extend to other parts of Canada, projects must be focused primarily on the BC forest industry. FII understands that British Columbia has two distinct aspects to its forest industry, Coastal and Interior/Northern BC. It is FII's intention to support project activities focused on each of the parts of the Province, where projects do not have a provincial scope in nature.

9/ **Balance of BC Species:**
FII's investments will be focused on the wood species grown and used for commercial products in British Columbia. The priority will be on species that currently represent commercial opportunities, and that have ready acceptance in international forest markets.

FII will entertain project proposals that explore or begin to commercialize lesser used BC wood species, as a part of its strategic activities designed to help further diversify the BC industry. All activities will require a compelling business case to secure FII funding.

KEY ISSUES: BC PRODUCTS AND MARKETS

Forest products, including solid wood, panels, and value-added wood products represent a significant contribution to the economy of the province.

The forest sector is a major source of employment, the biggest market for new technologies, and the largest source of export sales. This has been the case for decades, and through sound forest policy and world leading forest practices, the sector will continue to play a vital role well into the province's future.

At the same time, future success is by no means guaranteed. There are significant challenges to be faced and overcome, including:

- **Access to the US Market:**
  The United States has shown a willingness to use trade barriers to limit access to Canadian imports. While the broader global trend over the last few decades has been towards a liberalization of trading relationships, the softwood lumber dispute with the U.S. remains a significant restraint on the success of BC's forest sector.

- **Global Supply:**
  Many countries are producing more forest products to compete with those produced in British Columbia. For decades, the world market for forest products was largely supplied by a handful of producing countries, with Canada accounting for a large share of the world's export trade. Today, many new countries are entering key BC markets as competitors, causing downward pressure on prices and severe competition for market share in many product categories.

- **International Competition:**
  Historically, BC has enjoyed a worldwide recognition as the supplier of choice for solid sawn lumber, panels and value added grades of softwood lumber. With the increased number of international suppliers and increasing global volumes of wood fiber available, BC's position within existing markets is continually challenged by international competitors.

  Like many other sectors, the global forest industry is becoming increasingly dominated by large, multi-national players. While on a provincial or national scale BC's forest industry has comparatively large firms; on an international scale BC firms are considered small players. This can have an important impact on BC's ability to compete internationally, and for BC firms to capitalize on business efficiencies, trade networks, and access investment capital.

- **Substitute Products:**
  Many competitors (including concrete and steel, plastics, and engineered wood products produced in other supply jurisdictions) are constantly working to improve the qualities and attributes of their products. This includes efforts to work more closely with customers to understand and respond to their needs, to invent new and improved products, and to solve product or application problems.

What was once disproportionately a commodity business is becoming a more complex mix of commodity and value added opportunities and threats.

- **Environmental Considerations:**
  Some conservation groups and substitute product competitors have invested significant effort urging a reduction in consumption of forest products, on the basis that this would be advantageous from an environmental standpoint, despite the fact that the use of sustainably managed forest products almost always represents an environmentally superior choice over other building materials.

British Columbians cannot afford to take these challenges lightly. Success in the future will require that an ever-greater premium is placed on sound marketing strategy and strong execution.

Towards this end, FII has committed to becoming a strong partner with industry, by investing in projects that are based on top quality information, that feature strong strategic underpinnings, and that have the potential to build long term success for the province.

Sound expenditure management requires a comprehensive assessment of the strengths, weaknesses, opportunities and threats facing the sector. This important work will help guide investments through Forestry Innovation Investment, and will always remain a work in progress, as the market continues to evolve.

To support maximizing the impact and return from project activities, and making appropriate decisions on investment priorities over the coming year, FII recognizes the need for current, reliable, comprehensive and globally focused market information. FII has begun the process of gathering and collating available information, and will continue to enhance its information resources.

IMPORTANCE OF THE BC FOREST SECTOR:

Despite continued diversification in the provincial economy, the forest products industry continues to play a major role in the economic well-being of British Columbia. In 2002, forest industry gross domestic product (GDP), expressed in current dollars, totaled $8.98 billion, representing 7.7% of total provincial GDP. In comparison, the construction industry contributed $5.35 billion to GDP, and mining, petroleum and natural gas accounted for $2.7 billion in 2002.

Direct employment in the forest industry totaled 97,100 persons in 2000, representing 6% of total provincial employment. Indirect economic activity further increases the sector's importance; with indirect effects the forest industry accounted for approximately 14% of total provincial employment.

Within the forest products sector, about 40% of BC's economic activity is related to harvesting and logging activities, 40% is associated with wood and product manufacturing, and 20% is related to pulp and paper manufacturing.

Forests cover about two-thirds (59 million hectares) of the province's land mass. Almost all of the wood in BC is softwood, used to produce lumber, plywood, shakes, shingles, newsprint, and pulp and paper products. In fact, about half of the softwood produced in Canada comes from BC and forest products are the province's most important export commodity, accounting for almost half ($13.9 billion) of the province's total exports in 2002.

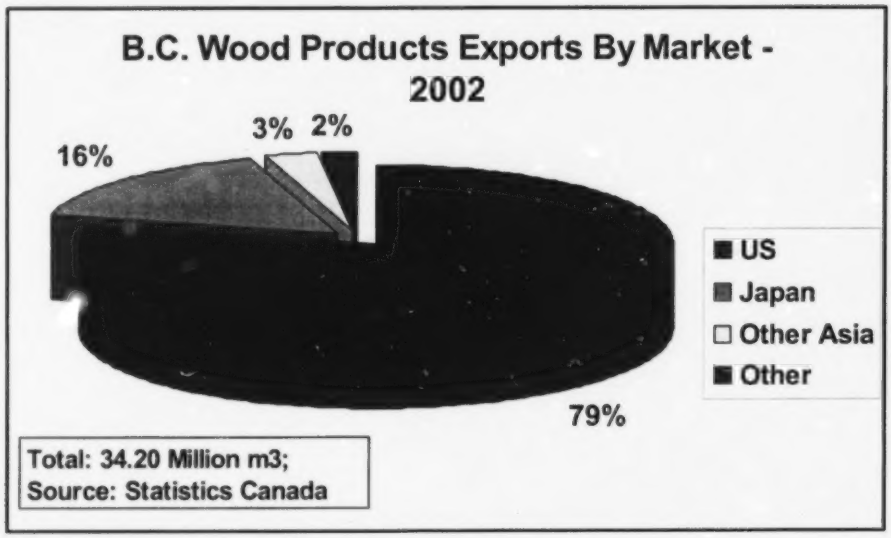
Canada & BC Primary Wood Products Production & Export 2002

	Units	Softwood Lumber	Softwood Plywood	OSB	MDF	Particle-board	Total
Canada Consumption	(x000 m3)	29,207	1,706	2,270	424	2,066	35,674
Canada Total Production	(x000 m3)	78,668	2,159	9,601	844	2,889	94,161
Canada Exports	(x000 m3)	49,994	556	7,468	461	1,150	59,628
Canada Imports	(x000 m3)	533	104	136	41	327	1,141
BC Production	(x000 m3)	33,567	1,980	1,309	157	260	37,272
BC Exports	(x000 m3)	28,310	533	1,149	64	180	30,235
BC Share of Canada Prod'n	(%)	43%	92%	14%	19%	9%	40%
BC Share of Canada Exports	(%)	57%	96%	15%	14%	16%	51%

Note:
- BC Production and Exports estimated for most panel products
- Statistics Canada data has some irregularities with reported Association or Newsletter sources.

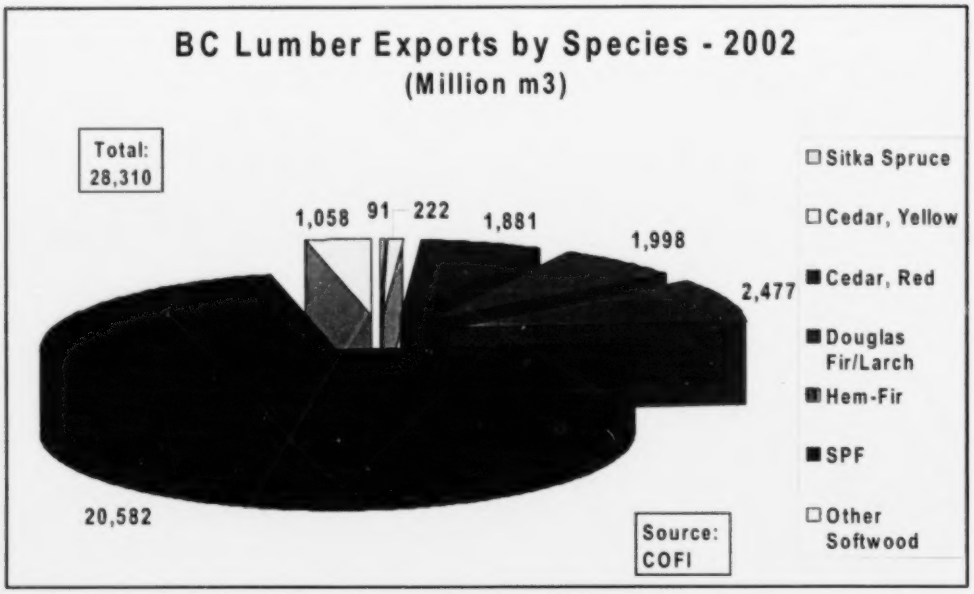
Source: Statistics Canada, COFI, WOOD Markets

British Columbia relies heavily on the export of wood products, with exports accounting for 86% of BC production. Of BC's wood product exports, the United States and Japan are by far BC's largest markets. These two markets account for almost 95% of the total value of BC's wood product exports[1].

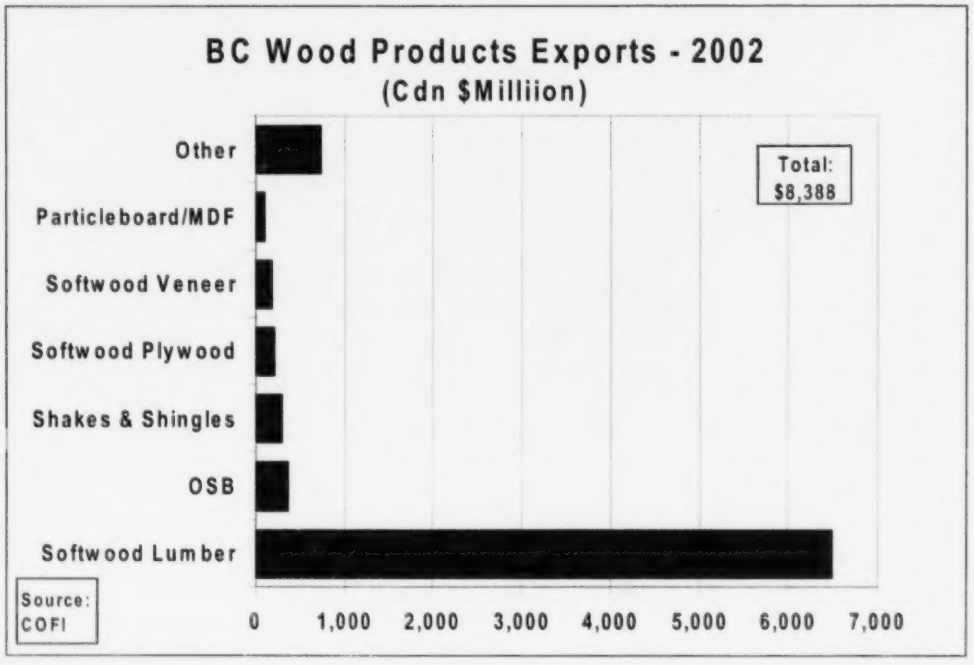


[1] Refers to BC wood products; does not include pulp and paper exports.

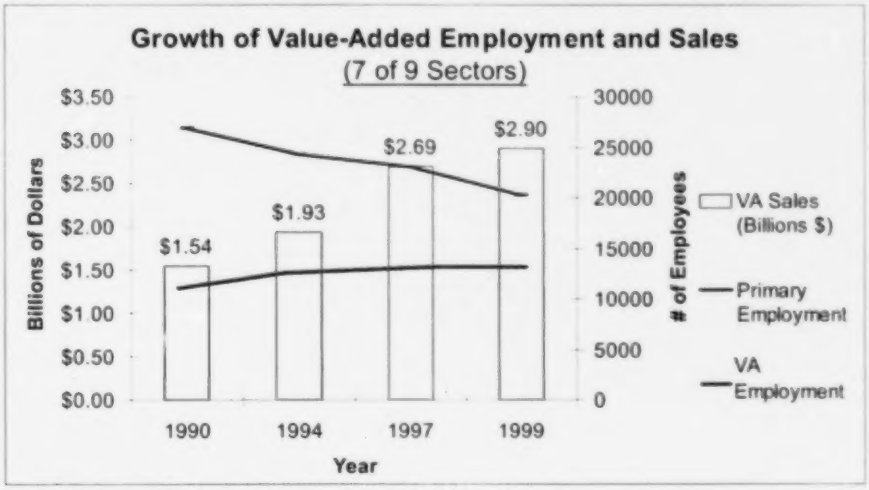
BC exports a wide range of forest products, the most significant of which are SPF (spruce, pine, fir); coastal whitewood (largely hemlock and fir) and WRC (western red cedar). The US represents the largest export market for SPF and WRC, with Japan accounting for a significant proportion of coastal hem-fir products.



B.C.'s exports (value basis) show the importance of softwood lumber as compared to panels or specialty products;



British Columbia's value-added, or secondary manufacturing industry accounts for an important part of the provincial forest industry. Total value-added industry employment is 13,500 (20,191 when shake & shingle and panel board sectors are included). This compares to total employment in the primary wood products sector of about 20,000.



Source: Wilson, 2001

- Average number of employees per firm: 34 and rising;
- Total value-added industry sales: estimated at $4.68 billion;

Some of the key economic drivers in BC's value added industry include:

- **Cabinetry:** There are over 90 manufacturers of cabinetry in British Columbia, employing close to 900 workers and generating export revenues of almost $100 million.
- **Engineered Wood Products / Pre-fabricated Housing:** This sector boasts the largest number of manufacturers in the value-added wood products industry with almost 190 working plants. Current employment in this sector is listed near 3,700 employees, while sales revenue tops $650 million annually.
- **Furniture and Fixtures:** This category employs 1,100 craftsmen in about 75 facilities for revenues of $140 million. It represents a fast growing sector meeting both residential and commercial/institutional needs.
- **Millwork:** Employing over 1,800 workers in BC, this sector generates $ 234 million in shipments from 120 manufacturing facilities in the province
- **Remanufactured Products (semi-finished):** Is the largest value added sector employer in the province with close to 6,000 employees generating revenues of $1,590 million for just over 170 companies around BC.

STRATEGIC OBJECTIVES AND INVESTMENT PRIORITIES:

Consistent with FII's guiding principles for investments, Forestry Innovation Investment has identified the key market areas and key focus areas of activity that will reflect FII's investment priorities for 2004/05. These priorities will guide FII's funding cycle for 2004/05, and provide a basis from which to assess the degree to which proponent project proposals are consistent with Forestry Innovation Investment's investment plan. This strategy will also provide FII a key tool to use in assessing its own performance, and how FII investments are helping to contribute to FII's overall program and investment objectives.

Forestry Innovation Investment's 2004/05 International Marketing and Product Development Investment Strategy does not replace the need for individual proponents (either individually or collectively) and/or for FII to prepare individual market-by-market strategies / plans. Where individual market plans outline in detail the objectives and associated plans to achieve those objectives (over the short and longer term), FII's Investment Strategy is intended to provide a high level overview of International Marketing and Product Development priority areas for funding. FII has set a priority to work closely with industry, its representative associations and Natural Resources Canada to develop market strategies in all key forest product markets.

EXISTING MARKETS:

- The United States
- Japan
- Others

British Columbia enjoys existing and well established product sales relationships, with various global markets. As discussed in a previous section "Importance of the BC Forest Sector", British Columbia has two dominant existing forest product markets, the United States and Japan.

While FII will be supporting market diversification activities, FII has set as a priority four existing forest sector markets (US, Japan, Europe, Australia/NZ). FII believes that existing forest product markets represent the best short term economic opportunities for British Columbia.

The United States:

British Columbia enjoys a long and established trading relationship in forest products with the United States. The US has a culture of wood construction, and has demonstrated its acceptance of the forest products produced in British Columbia.

Given the market significance of the US, FII will continue to fund as a priority promotional activities where forest product market segments and trends are identified.

FII recognizes that these and new opportunities can be found in the lucrative residential construction sector (single family and multi-family), but also existing and developing opportunities in the non-residential sector (including commercial, industrial and recreational construction). All project activities must be based on current market research and intelligence. Where market information does not exist or is not current/timely, FII will consider the compilation of this information a funding priority, to ensure that future marketing / promotional activities are focused and targeted appropriately.

Also of importance to British Columbia is the demand for value added products in the United States. While a number of global markets represent opportunities for BC's secondary manufacturing and finishing products, their key export market is the US.

While the US is an expanding market for forest products, BC's flow of products have been and continue to be challenged by increased US protectionism and the increased global competition from international suppliers. While activities to further diversify BC's markets for forest products and reduce its heavy reliance on the US is an ongoing objective, exploring new market or product opportunities in the US is an equally important goal.

Specific to the United States, but also a trend that may develop in other developed countries, is the importance of the renovation / Do It Yourself (DIY) market. Trends in North America for home renovations and consumer friendly installation packaged goods are representing considerable economic opportunities. FII recognizes this as an important and growing trend in the US market, and has identified this as an area for market research and proponent activities.

Japan:

Japan represents the most important export market for British Columbia forest products, outside of North America. Significant efforts have been undertaken over the past three decades to develop and enhance forest sector opportunities for BC's forest industry in Japan. Given the significance of the Japanese market, FII has identified it as a key existing market for 2004/05 investment activities.

The Japanese market is not without its challenges. Japan has suffered through a number of recessions over the past decade. Most of the country's leading economic indicators are either flat or in decline. However, Japan continues to lead the world in per capita usage of wood products and the country still represents the second most important market for BC forest products.

Japan imports a variety of wood products from around the world, and has established relationships with all key wood fiber exporting countries. Competitors are aggressively challenging the product segments that are supplied by BC producers, and represent a threat to BC's market share in Japan.

While an established culture of wood usage exists in Japan, the marketplace and consumers in Japan are among the most demanding in the world. Japanese consumers are, however, still capable and willing to pay premium prices for preferred, high quality forest products. These characteristics, in conjunction with the established position of many BC producers and products, will continue to create opportunity for BC's primary and finishing products in Japan.

The Housing Market Assurance Act that was established in 2000, is having a profound impact on the types of products now required in the Japanese marketplace. The Act requires warranties for up to 10 years for building materials, and this has lead the market to demand more dried and stabilized wood products. This change is both an opportunity and a threat to BC companies. Coastal firms processing and shipping green species are adjusting to the changes in the marketplace. FII recognizes this and considers it an ongoing priority to work closely with producer groups in this manufacturing segment to develop alternatives that reestablish or repositions specific products to existing or new markets within Japan.

In the past years, the insulation efficiency of houses in Japan has been much improved, but new indoor environment problems (e.g., indoor air pollution emitted from building materials, condensation, etc.) have become a concern. Chemically polluted air within the living environment and related symptoms of illness comprise a phenomenon known as the "sick house syndrome." It is the single greatest challenge facing Japan's housing industry today. Recent changes to the Japanese Building Standards Law and the new Housing Quality Assurance Act are addressing issues such as formaldehyde emissions to promote the construction of healthy housing. Certain categories of building materials, including plywood, OSB and other panel products are affected when applicable to interior finishing materials of habitable rooms. This has lead to performance and product labeling standards such as the F **** rating to categorize the acceptable standard reached by these products. FII sees these healthy housing trends as an opportunity to promote BC's high performing and quality products as an answer to Japan's changing market needs.

Through various well established trade association offices and many ongoing initiatives, the British Columbia industry has had a significant presence in Japan for a number of years. As long as the business case to do so remains strong, FII anticipates continuing to support market based activities that help position BC as a preferred forest products supplier, in the eyes of building officials, importers, key influencers and consumers. All FII cost-shared in-market representation must be coordinated with other FII funded representatives in the same location, with all representatives sharing common office space to maximize efficiency and working cooperatively to maximize effectiveness.

Other Existing Markets:

In addition to the US and Japan, FII has identified the European Union and Australia/New Zealand as much smaller, but important existing markets for BC products. These markets represent more of a niche market opportunity for British Columbia. Given their ongoing consumption of wood products and the supply of certain types of products from BC, these markets have been identified as priority areas for funding as existing forest product markets. FII recognizes that there are considerations as well with these markets, like the intense competitive and protectionist nature of the European market, and the importance of environmental and sustainability issues. Likewise, the considerable shipping distance to Australia / New Zealand, and the competitive pressures in Oceana from plantations and their fast growing tree species represent ongoing challenges for BC.

Like all FII investments, project proposals should be based on current market information, or be designed to compile this information to support project activities. Projects should focus on the areas where British Columbia may have a competitive or product advantage, where the best opportunities exist for financial returns for the industry.

EMERGING MARKETS:

- China
- Taiwan
- Korea

Forestry Innovation Investment recognizes the importance of the further diversification of British Columbia's forest industry, and as a priority will support market development activities to secure increased economic opportunities for British Columbia in emerging markets for forest products. FII is focusing its funding attention on the markets that appear to represent the best economic prospects for British Columbia (China, Taiwan, Korea).

For emerging markets in particular, FII has identified as a priority to support a wide range of market research activities. While these emerging markets may hold longer-term economic prospects for British Columbia, it is critical to ensure that we understand as much as possible about these markets to better assess the kinds of opportunities that they may come to represent, the issues that will likely be faced, and more about what must be done to position British Columbia as an important and readily accepted supplier of forest products.

Recognizing the infancy of most emerging markets, FII realizes the need to take a longer-term investment focus in these markets than it does in existing markets. As a result, the kinds of activities that FII will fund in emerging markets may differ from those in existing markets.

FII will support activities that contribute to British Columbia gaining market access to these emerging markets. It may include activities to overcome non-tariff trade barriers,

the development of building codes and standards, or other projects designed to support the access and best utilization of BC's forest products in foreign markets.

FII recognizes the importance of technology transfer, as most emerging markets do not have a well developed wood consumption / construction culture. This may include the building of relationships, sharing of technical and product information, and supporting the transfer of North American construction technologies.

Large scale promotional activities are not anticipated at this time in emerging markets, as in most cases the market opportunities are not sufficiently developed. FII may consider, however, investments in developing technical information or literature, promoting BC forest products and their many benefits and applications. The focus of these activities should be to support and spur the development of forest product market opportunities. Any materials of this nature must be focused in their design, target audience(s), and usage, to ensure maximum effectiveness for the investment.

Where a compelling business case can be made to do so, FII may support in-market representation / resources. All FII cost-shared in-market representation must be coordinated with other FII funded representatives in the same location, with all representatives sharing common office space to maximize efficiency and working cooperatively to maximize effectiveness.

In all markets, but particularly in emerging markets, FII believes that it is critical that all British Columbia (and where possible Canadian) funded activities are coordinated as much as possible. Failure to provide consistent messaging and to ensure that investments are leveraged off of each other to maximize their impact, will only lead to inefficiency and confusion within the marketplace. All emerging market activities must coordinate their activities with other in-market activities, and work cooperatively with other FII funded project proponents as a condition of receiving (and continuing to receive) project funding.

China

Although still a comparatively small market for BC exports, China represents a fast growing market for wood products that holds considerable future market potential. As such, China has been widely recognized as a priority emerging market for wood products.

FII has been active in China, exploring market opportunities and developing partnership projects with the BC industry and its associations to advance market development objectives. A focal point of these activities has been the Dream Home China project – a BC forest products demonstration community in Shanghai.

To further build on these efforts and efficiently develop the market, it is recognized that additional work is required on a comprehensive market development strategy through cooperation and participation with Natural Resources Canada, the BC forest industry and associations active in China, as well as the Department of Foreign Affairs and International Trade through its Embassies and Consulates. While this work is being

completed, Forestry Innovation Investment provides the following summary information -- which will guide FII's investment decisions in China for the 2004/05 funding year.

The Chinese market has tremendous potential, particularly residential housing. Increasing disposable income means more Chinese consumers can afford their own homes. Wood-frame construction using B.C. wood products, if properly marketed, is a premium alternative to concrete-based construction. Current efforts in this regard have been focused on China's high end villa housing market.

Multi-family dwellings, particularly townhomes, duplexes and low-rise apartment complexes, also represent a potentially large market for wood-frame construction. And within both categories, composite construction – such as concrete walls and wooden trusses and roofs – represents another growth opportunity.

While China has a long history of using wood-based construction, the emphasis recently has been on concrete-based structures. Zoning, building/fire codes, engineering and construction expertise, architectural experience, developer interest, and consumer awareness are all oriented towards concrete. Establishing a viable market for wood-based products means that all of these factors – regulations, expertise, market demand - must be dealt with through a coordinated and sustained strategy promoting the use of wood in residential construction.

The overall strategy for China is to introduce Chinese consumers and entrepreneurs to the many uses and benefits of BC wood products. As local entrepreneurs find ways to develop business opportunities and add value using BC products, the demand for BC wood will increase. In addition to developing interest and demand for BC products, activities will be required to overcome any market access issues / technical barriers to trade.

FII has identified business opportunities for BC wood products in 3 key areas. Although initially focused on wood building products, FII's funded activities and overall strategy will support market growth in all 3 areas of opportunity. These areas of business opportunity include:

1/ Building products
2/ Value added products
3/ Components or product for further remanufacture in China

Building Products: With the rapidly expanding residential housing market in China, and government policies stressing better quality and quantity of available choices, there is a significant opportunity for wood frame construction. As Chinese consumers come to understand the benefits of wood construction, and the misconceptions about durability and performance are overcome, wood frame housing can become an important building system in China. This will create new and expanded business opportunities for BC building products, including dimension lumber and panel products.

As BC is predominantly a producer of wood building products, supporting market development in this area is a key priority for the industry and for FII.

Value Added Products: BC has a growing and dynamic value added wood industry. Although key markets are currently focused on the US and Japan, the industry has taken steps to expand its activities to new markets, including China.

As residential and commercial construction in China continues to expand, opportunities for value added wood products and finishing products (both interior and exterior) will also grow. With China's recent moves to private ownership, from a centrally controlled system, its population now enjoys the pride of home ownership for the first time in over 50 years. Combined with increases in individual wealth and earnings, home renovations, improvements, and re-finishing are anticipated. While there will be significant competition from domestic-produced products in China and other low cost Asian producers, some business opportunities are anticipated for BC producers.

Components or Products for Further Remanufacture: China has become the largest recipient of foreign investment, with companies from around the world setting up business operations in China. Initially focused in manufacturing or business services for re-export, many businesses are now focusing on China's rapidly expanding domestic marketplace.

China has become a significant consumer of wood products, for its manufacturing and packaging industries. China is now the largest furniture manufacturer in the world, drawing investment and business interests from around the globe. China is fast becoming a preferred, low cost manufacturing hub for many industries, consuming wood for production of specialty products or for packaging and wooden pallets.

One of the objectives of FII's funded activities in China, will be to help link BC's wood species with the manufacturing opportunities available in China. This could be higher value, appearance grade products, or low grade products for re-manufacture. Although we must maintain the maximum amount of value added manufacturing in BC to support BC companies, this must be balanced with the global shift in manufacturing taking place to low cost producers, like China.

Key Activities: All activities must be focused and closely coordinated, and should build upon the other activities underway in the marketplace, like the Dream Home China demonstration project or other proponent funded activities.

Priority activity areas for FII funding include:

- Market research
- Codes and standards (building and fire codes)
- Training and technology transfer
- Promotional activities
- In market staffing
- Communications
    - Influencer groups (officials, developers, builders, architects, engineers…)
    - Consumers and Chinese entrepreneurs

Taiwan

Taiwan has represented a small market for BC forest products, and like Korea, is believed to hold further upside future potential. However, to date the opportunities or the scope of their future potential in Taiwan have not been well quantified.

FII has initiated a market research project in Taiwan, to explore the wood product market opportunities and related trends. The project will also attempt to quantify the scale of future market growth trends and the best opportunities for BC wood products. This research is scheduled for completion in February – March 2003.

In addition, it is anticipated that a market strategy development process will be initiated in Taiwan in December 2003. While it is recognized that the market research and strategy development activities will not be complete in time for the 2004/05 proposal submission process, it will be complete and form a basis for future funding periods. In the absence of a completed market strategy, the following information will guide FII investment decisions for 2004/05.

Preliminary market research has identified two key areas of future opportunity in Taiwan. The first is in the growing interest in 2x4 wood frame construction – primarily in residential construction applications. Taiwan approved its wood building code in 2003, in many ways opening the door for increased wood construction.

FII recognizes the potential for residential wood construction in Taiwan, and will entertain proposals that further advance these objectives. The scope, or scale of these activities, however, will need to be in relation to the overall size of the market, and the future market potential.

It has also been identified that increasing volumes of treated wood products are being consumed in Taiwan, although at this time, largely consisting of southern yellow pine from the United States. Should it be identified that these consumption trends are likely to continue, FII will entertain proposals to further explore and advance the opportunities for BC treated wood products in Taiwan.

Finally, many Taiwanese businesses have been placing significant commercial focus on China, Vietnam, and other low cost manufacturing areas. Many of Taiwan's traditional manufacturing industries are moving to these low cost labour areas, and the wood products that were consumed in the manufacturing process or in the packaging and pallet industries have also been shifting. While it is recognized that some wood products will continue to be consumed in Taiwan in manufacturing, pallets, packaging, and in some infrastructure construction applications, these product sourcing relationships are well established and it is not anticipated that marketing or market development activities would have a meaningful impact. As such, FII does not anticipate funding marketing activities with this focus in Taiwan.

Korea

Korea has been identified as a market that holds business opportunities for British Columbia forest products. While still a developing market, a number of BC companies have been shipping products into Korea for a number of years, and it is believed that further upside business opportunities exist.

To guide future market development activities in Korea, FII, Natural Resources Canada, and BC forest industry associations (in consultation with BC forest companies and interests in Korea) prepared a market development strategy for Korea in 2003. While it is anticipated that additional work will be required as market development activities take shape and further market research and information becomes available, this strategy will guide FII's funding decisions for Korea for 2004/05. A copy of this strategy can be found on FII's website, at www.forestry-innovation.bc.ca under FII Programs.

Proponents will be required to clearly demonstrate in their proposals, how their project activities are consistent with the market strategy, and how they will play a role in advancing the priority areas identified in the strategy.

Other Emerging Markets

Forestry Innovation Investment recognizes that there are other emerging markets for wood products around the world, or markets that may represent future potential. Although not the focus of its activities for 2004/05, FII will continue to explore wood markets trends in other parts of the world, and may complete market research as deemed appropriate in these areas.

One such example is India, where FII has funded limited activities in the past. As a result of limited commercial interest in this market, and some challenging market access issues, FII has not identified India as a priority market for 2004/05.

While FII may consider proponent proposals in other emerging markets (non-priority areas), funding will only be made available where the proponent provides a compelling business case for activities. FII funding will also be allocated to priority market areas first, prior to considering proponent funding for other emerging markets.

CONCLUDING COMMENTS:

This document represents Forestry Innovation Investment's 2004/05 International Marketing and Product Development Investment Strategy. While not intended to summarize FII's or the BC Industry's detailed strategies or plans in any one market, this plan provides a high level overview of the funding priorities FII has established for the upcoming fiscal year. Based on the investment guidelines and investment priorities established in this document, FII will assess funding proposals and make investment decisions for the 2004/05 funding year.

FII will also utilize this document as an important input into Forestry Innovation Investment's performance management framework. This performance management framework will provide the structure FII uses to evaluate and assess the success of the projects that it funds, and the results and return that these investments generate. The framework also provides the structure through which FII will evaluate its own success in achieving its program objectives, as the investment agent of the Government of British Columbia for forest sector marketing and product development initiatives.

This investment strategy is intended to provide prospective funding proponents with a summary of the market areas and the kinds of activities that FII has established as priorities to receive funding for 2004/05. It is FII's intention to support project activities that are consistent with the guidelines and investment focus as outlined in this document. Proponents submitting funding proposals through FII's 2004/05 competitive call for proposals process are required to have read and identified clearly in their proposal, how their project plan is consistent with the focus and intent of this investment plan. Any proposals that are outside of the focus of this strategy will require significant supporting information and a very compelling business case and rationale as to why FII funding should be approved; if they wish to receive any consideration for funding.